



Confederation of Indian Industry

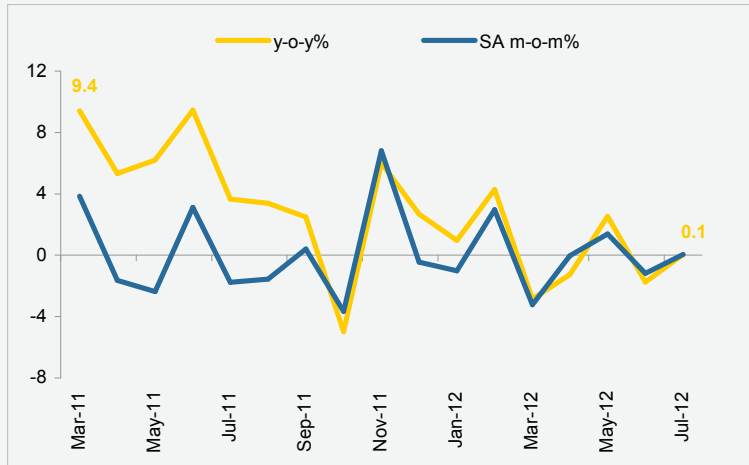
Economy Update - IIP



Industrial production growth continues to remain weak

12 September, 2012

Industrial production growth inches to positive territory



- Index of industrial production (IIP) growth fared marginally better in July 2012, as it moved into the positive territory by posting a growth of 0.1 per cent as compared to a contraction of 1.8 per cent in the previous month. Growth in IIP has continued to remain sluggish since the start of the current fiscal. The cumulative IIP growth for the first 4 months stands at -0.1 per cent.

- On a sequential basis, IIP growth remained flat (seasonally-adjusted basis) in July 2012, indicating the underlying downward momentum in the series.

- Manufacturing sector, which has the highest weight in overall IIP, contracted for the second consecutive month in July 2012 despite a low base of last year.

Sectoral growth in IIP sectors

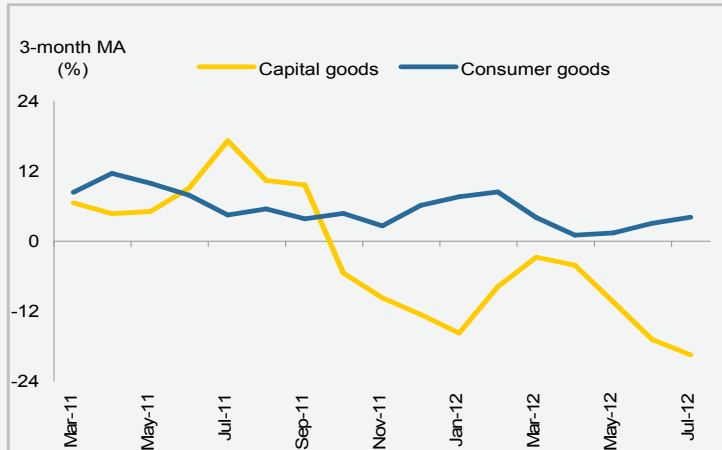
	Weight	July-11	May-12	Jun-12	July-12	Apr-July FY12	FY13
General	1000.0	3.7	2.5	-1.8	0.1	6.1	-0.1
Manufacturing	755.3	3.1	2.6	-3.1	-0.2	6.5	-0.6
Mining	141.6	0.6	-0.6	0.2	-0.7	0.6	-0.9
Electricity	103.2	13.1	5.9	8.8	2.8	9.4	5.5
Use-Based							
Basic	456.8	10.0	4.2	4.2	1.5	8.1	3.0
Capital	88.3	-13.7	-8.8	-28.1	-5.0	8.2	-16.8
Intermediates	156.9	-0.1	3.7	0.6	-1.1	1.3	0.3
Consumer Goods	298.1	6.4	4.5	4.1	0.7	4.9	3.3
-Durables	84.6	9.0	9.8	9.2	1.4	4.3	6.3
-Non durables	213.5	4.1	0.3	-0.1	0.1	5.5	0.7

- Mining sector's growth once again slipped into the negative territory in July 2012. The sector is besieged with many problems currently and the latest coal block scam only threatens to hurt the sector further.

- Output of electricity sector moderated sharply to 2.8 per cent in July 2012 as compared to a robust 8.8 per cent growth in the last month mainly due to a high base of last fiscal.

- Intermediate sector's output contracted in July 2012 despite an extremely low base of last year. This doesn't bode well for the future IIP series as intermediates sector output is generally regarded as a leading indicator for IIP.

Both capital and consumer goods growth remains sluggish



- Capital goods growth continues to remain weak. The sector posted the fifth consecutive contraction in July 2012, indicating the weak investment outlook in the economy currently. IIP growth excluding the volatile capital goods stood at 0.8 per cent in the reporting month.

- Consumer goods growth decelerated to 0.7 per cent in July 2012 underpinned by a moderation in output of both its components- durables and non-durables.

- Consumer durables goods growth had bucked the trend so far and managed to post relatively healthy growth rates this fiscal until June 2012. However in July 2012, its growth decelerated sharply to 1.4 per cent as compared to healthy 9.2 per cent in the previous month. Part of the reason is attributable to a high base of last fiscal.

Source: Central Statistical Organization (CSO) & CII computations

Outlook: IIP growth continues to remain weak, though it did post a mild uptick in July 2012 as compared to the previous month. We continue to expect the IIP growth to remain sluggish at least till the first-half of the current fiscal. High interest rates, policy grid-lock, high input costs and uncertain global scenario have all played a part in dampening the IIP growth. We have been suggesting an immediate cut in repo and CRR rates by 100 bps as inflation clearly remains a supply-side phenomena and hence demand should not be curtailed by keeping interest rates high.